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Miscellaneous General Fund Revenues in Nebraska

This is one of a series of NebGuides on financing state and local government. Miscellaneous revenues supplement sales and income taxes.

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Although general sales and use taxes and income taxes are the major sources of General Fund revenue for Nebraska state government, significant supplemental revenues come from "miscellaneous" sources.

In fiscal year 1989-90 (hereafter FY 1990), miscellaneous General Fund revenue amounted to \$135.4 million or 11.7 percent of total receipts. While this represents a significantly smaller percentage of the total than that accounted for by either state sales or income taxes, it nonetheless reduces the revenue that otherwise would have to be raised from major sources. Viewed from an alternative perspective, miscellaneous revenues more than equaled the state's contribution to Medicaid, the largest social service program administered by state government.

Major Contributions to Miscellaneous Revenues

Miscellaneous revenues come from many sources (*Table I*). The most important are reviewed in this NebGuide.

Cigarette Tax

In FY 1990, the cigarette tax contributed \$17.3 million to the General Fund, down from the all-time high of \$23.0 million in FY 1988. Another \$11.9 million went for other uses outside the General Fund.

Cigarettes are heavily taxed when considered on a per cigarette or per package basis. In mid-1991, the state excise tax rate on cigarettes was 1.35 cents per cigarette (with a minimum tax of 27 cents per package). By law, 16 cents per package went into the General Fund, although this total was reduced by \$4.5 million per fiscal year and added to the Municipal Infrastructure Redevelopment Fund. The remainder was earmarked for outdoor recreation; cancer research; land acquisition; general capital construction; and construction and facilities improvement at state colleges and the University of Nebraska.

Table I. Miscellaneous revenues for the state general fund, Fiscal year 1989-1990.

<i>Revenue Source</i>	<i>Amount (mil. \$)</i>
Cigarette tax	17.3
Insurance premium tax	18.9
Alcoholic beverages tax	16.1
Parimutuel wagering tax	0.0
Interest on investments	34.8
Court fees	7.7
Corporation occupation tax	4.7
Pickle card/bingo/lottery taxes	4.1
Cash fund lapses	4.0
Estate tax	3.8
City sales tax collection	3.0
Motor vehicle drivers' licenses	2.6
Documentary stamp tax	2.6
Other	15.8
TOTAL	\$135.4
Source: Unpublished data, Legislative Fiscal Office.	

Federal excise taxes added another one cent per cigarette or 20 cents per 20-count package. In addition, cigarette buyers were required to pay the state general sales tax of five percent and the local option sales tax where applicable. In essence, they paid taxes on taxes because sales taxes were assessed on that portion of cigarettes' cost attributable to excise taxes.

All states impose an excise tax on cigarettes, although it still amounts to only a few pennies per package in tobacco-producing states such as Virginia, North Carolina and Kentucky. In mid-1991, Virginia had the lowest cigarette tax in the country, at 2.5 cents per package, while Connecticut had the highest, at 45 cents per pack. Nebraska's cigarette tax consistently has been higher than that in adjacent states and above the average for all states.

Insurance Premium Tax

Insurance companies operating in Nebraska pay a tax equal to 1.0 percent of the premiums received by the company during the previous calendar year for business generated in the state. Exceptions are for group accident and health insurance, where the tax rate is 0.5 percent of the premium, and property and casualty insurance (excluding sickness and accident), where the tax rate is 0.8 percent of the premium.

Taxable life insurance premiums include premiums paid on the lives of persons living in this state even if the insurance was written in another state. The tax also applies to premiums for insurance written on individuals residing outside the state or property located outside the state provided that no comparable tax is paid by the direct writing company to any other appropriate taxing authorities.

Fifty percent of insurance premium tax dollars go to the General Fund. The remainder is remitted to

counties, municipalities and school districts. In FY 1990 the state General Fund share amounted to \$18.9 million, down from the record high of \$20.7 million in FY 1986.

Alcoholic Beverages (Liquor) Tax

A "gallorage" excise tax is imposed upon those businesses that manufacture or distribute alcoholic liquors in Nebraska. In FY 1990, this tax generated \$16.1 million for the General Fund, compared to the record high of \$16.2 million established the previous year.

Higher tax rates have increased the overall yield of the liquor gallorage tax over the years. (Unlike general sales and use taxes, excise taxes are not directly influenced by inflation because the tax is established on the basis of volume, not value.) In 1991, the tax on beer was 23 cents per gallon. The tax on wine containing less than 14 percent alcohol was 75 cents per gallon, while wine containing at least 14 percent alcohol was taxed at \$1.35 per gallon. For spirits, the tax was \$3.00 per gallon.

Federal excise taxes also are levied on alcoholic beverages but at significantly higher rates than at the state level. Beer excise taxes, for example, were about 58 cents per gallon in 1991. Wine taxes ranged from \$1.07 to \$3.40 per gallon, and spirit taxes were \$13.50 per proof gallon. (For example, a gallon of 80-proof liquor was taxed at 80 percent of \$13.50 or \$10.80.)

In addition to gallorage taxes, manufacturers, distributors and retailers of alcoholic beverages must pay annual license fees. These fees range from \$5 to \$1,000 and are based on the classification of the business and the quantity of alcoholic beverages sold. These fees go into the Temporary School Fund and eventually are distributed to the school fund of the county or city where the license fee is paid.

All 50 states tax alcoholic beverages. Nebraska's tax rates rank near the middle, considerably below high-tax states such as Florida, but above low-tax states where alcoholic beverages originate (e.g., Missouri and Wisconsin for beer; California for wine; and Kentucky for spirits).

Parimutuel Wagering Tax

The parimutuel wagering tax -- at least in theory -- is levied on wagers at thoroughbred horse racing tracks in Nebraska. As recently as FY 1984-85, this tax contributed \$12.6 million to the General Fund. However, from FY 1988 through FY 1991, no parimutuel wagering taxes were collected. The tax rate on parimutuel wagering was effectively adjusted to zero in 1987 as the Legislature sought to keep horse racing a viable economic enterprise. Of particular concern was the increase in competition for wagering dollars from adjacent states. In the 1987-1990 period, the tax was two percent of gross wagers, but the tracks eventually got that back to make capital improvements.

Nebraska Legislative Bill 1055, passed in 1990, increased the tracks' share of wagers from 15 to 18 percent on "win, place and show" wagers and from 20 to 23 percent on "exotic" wagers. The bill also increased tracks' basic tax rate to 2.5 percent of gross wagers with a two percent tax credit as of January 1, 1991. The tax is to increase to three percent by January 1, 1994 with a one percent tax credit.

The 1990 legislation also specified that tracks with gross wagers of more than \$80 million are to be taxed at a four percent rate. Tracks with less than \$10 million in wagers are to be exempt. These include the thoroughbred tracks at State Fair Park in Lincoln, Agriculture Park in Columbus, and Atokad in South Sioux City. Omaha's Ak-Sar-Ben and Grand Island's Fonner Park are subject to the tax. Three quarterhorse tracks also are not subject to the tax.

Interest on Investments

In FY 1990, interest on funds invested by state government totaled \$34.8 million. This was the largest in history, a function of both increased money flows through the General Fund and relatively large balances at the end of FYs 1989 and 1990. As recently as FY 1987, investment interest amounted to only \$5.5 million.

The Nebraska Investment Council is responsible for investing General Fund monies and other funds which are temporarily in the State Treasurer's bank account. The Council consists of five members appointed by the Governor with approval of the Legislature. The council, in turn, appoints a state investment officer who serves without term.

Court Fees

Court fees totaling \$7.7 million were collected in FY 1990 from those using the state's court system. Income from this source varied only marginally in the five-year period beginning in FY 1986.

Corporation Occupation Tax

An annual occupation tax is levied against domestic and foreign corporations by the Nebraska Secretary of State. The tax levied on domestic corporations is calculated according to the corporation's paid-up capital stock. For domestic corporations with capital stock of \$10,000 or less, the tax is \$13. It gradually increases to \$11,995 for corporations with capital stock of \$100 million or more.

Taxes for foreign corporations are based on the actual value of all real estate and personal property employed in Nebraska. The minimum tax is \$26 for property totaling \$10,000 or less and the maximum is \$15,000 for property valued over \$200 million.

The corporation occupation tax contributed \$4.7 million to the General Fund in FY 1990.

Pickle Card/Bingo/Lottery Taxes

Nebraska's excise tax on pickle cards, bingo, lotteries and raffles contributed \$3.6 million to the General Fund for the year ending on Sept. 30, 1991. Another \$2.4 million went into the Charitable Gaming Operations Fund to be used by the Nebraska Department of Revenue for administering gaming activities.

Pickle cards accounted for \$128.9 million out of a total of \$221.9 million in charitable wagering in Nebraska for the year ending Sept. 30, 1991. (This excludes parimutuel horse racing, which is administered by the state Racing Commission, not the Department of Revenue.) The pickle card tax paid to the state was 10 percent of "definite profits," a figure determined by subtracting prizes (65-80 percent of gross proceeds) from gross proceeds. Of the total taxes paid, 40 percent went into the Charitable Gaming Operations Fund and 60 percent into the General Fund. (Any portion of the 40 percent not used by the Department of Revenue was transferred into the General Fund.)

City-county lotteries, principally keno games, are the fastest-growing charitable gaming activity in the state, accounting for \$65.2 million in gross proceeds for the year ending Sept. 30, 1991. In these lotteries, at least 65 percent of the gross proceeds must be paid to players, with 72-74 percent a common pay-back. Not more than 14 percent of the gross proceeds may be used for expenses, including any amount paid to those who operate the lottery. Another two percent is paid to state government, leaving

about 10 percent for the local community that sanctions the lottery.

Bingo games, which are conducted by licensed non-profit organizations, generated \$25.1 million in gross sales for the year ending Sept. 30, 1991. State taxes are collected at a rate of six percent of gross sales and the city, village or county where the game is played collects an additional two percent. Taxes do not apply where there's no charge to play the game or when the prize does not exceed \$25 in value.

Lotteries conducted by nonprofit organizations are subject to a state tax of two percent on the gross proceeds when the potential proceeds exceed \$1,000. In the year ending Sept. 30, 1991, gross proceeds from such lotteries amounted to \$1.6 million.

Nonprofit organizations that conduct raffles also are subject to a state tax of two percent on the gross proceeds whenever the potential proceeds exceed \$5,000. In the year ending Sept. 30, 1991, gross proceeds from such raffles amounted to \$1.0 million.

Cash Fund Lapses

A cash fund lapse is an accounting designation used for excess funds that have accumulated for a specific purpose, but are no longer needed. For example, the Securities Act cash fund is intended to be used for monitoring securities trading in Nebraska. When the balance in this cash fund becomes higher than needed, some of the funds are switched to the General Fund. In FY 1990, cash fund lapses of \$4.0 million were a bit below the average for the five-year period beginning in 1985.

Estate Tax

The tax base for the Nebraska estate tax is the maximum allowable federal credit for state death taxes computed on the federal estate tax return. Every decedent who was a Nebraska resident at the date of death or who owned Nebraska real property as a nonresident is required to file a federal estate tax return.

Estate tax due in Nebraska is the amount by which the allowable federal credit for state death taxes exceeds the total amount of all estate, inheritance, legacy, or succession taxes paid to any state. The Nebraska estate tax changes as federal estate tax law changes.

In FY 1990, this tax raised \$3.8 million for the General Fund, an amount consistent with other recent years.

City Sales Tax Collection

State government receives a fee for collecting and administering city sales taxes. In FY 1990 this totaled \$3.0 million, an amount that has been increasing annually as more municipalities levy the tax (a total of 45 on January 1, 1992).

Motor Vehicle Drivers' Licenses

Regular driver's license fees for motor vehicles, payable every four years, were \$10 in mid-1991. Of this total, \$1.75 was retained by the county in which the driver's license was granted. The remaining \$8.25 went into the General Fund. Beginning September 1, 1991, commercial driver's license fees were \$40, \$1.75 of which was retained by the county with the remainder deposited to the General Fund. In FY 1990, General Fund receipts from driver's license fees was \$2.6 million.

Documentary Stamp Tax

Documentary stamp taxes are a form of excise tax paid by real estate buyers. In mid-1991, the tax rate was \$1.50 for each \$1,000 of valuation or fraction thereof. One-third of the revenue from this source is retained by the county where it was collected. The remainder (\$2.6 million in FY 1990) goes into the General Fund.

Other Contributions to Miscellaneous Revenues

Miscellaneous revenues come from a wide range of other sources, most of which generate only small and inconsistent amounts of revenue (about \$2 million in FY 1990).

Miscellaneous Tax Critique

Miscellaneous taxes, while an important contributor to the general fund, are perhaps best thought of as a supplement to sales and income taxes. It is inconceivable that miscellaneous taxes in Nebraska would ever be large enough to eliminate the need for sales and income taxes. (That's not necessarily true in states like Alaska, Wyoming and Nevada where severance taxes on minerals and casino taxes are large enough to preclude the need for income taxes.)

Perhaps the major limit on miscellaneous taxes is that they tend to have narrow bases, i.e., some people pay little or no miscellaneous tax. For example, a person who does not smoke or drink alcoholic beverages, avoids a significant portion of the miscellaneous taxes paid in the state. These, of course, are classic examples of sumptuary or sin taxes. As such, lawmakers have seldom been concerned about the narrowness of the base.

Another concern with miscellaneous taxes is that the revenue generated must be large enough to pay for appropriate administration and enforcement of the tax. If it isn't, there is little reason to implement the tax. Some critics have used this concern to question whether statewide lotteries or certain charitable gaming activities could be successfully implemented in Nebraska.

Finally, as with most taxes, it is appropriate to ask what impact any individual miscellaneous tax will have on economic activity. For example, in recent years the Nebraska Legislature has recognized that the parimutuel tax on thoroughbred racing must not be so high as to force the industry out of the state. Tax rates have been adjusted accordingly. From a public policy standpoint, maintenance of economic activity in the private sector is a precursor to taxing that activity -- not the other way around.

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